The Treasury

Budget 2026 Information Release

September 2026

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[12] 7(a)(i) - to avoid prejudice to the security or defence of the self-governing State of the Cook Islands

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[31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility

[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Draft Budget 2026 package

Date:	13 February 2026	**Report No:**	T2026/109
		File Number:	BM-2-4-2026-M133253

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	**Provide feedback** on the draft Budget 2026 package and the Budget Ministers 1 slides. **Discuss** with officials at Fiscal Matters on 16 February.	16 February 2026

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Aroha Leighton	Senior Analyst, Budget	[39] N/A (mob)	✓
Stephen Bond	Manager, Budget	N/A (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: Yes (attached)

Executive summary

This advice sets out the Treasury's advice on the draft Budget 2026 package. The draft operating package is currently a net $1.5 billion, with additional discretionary spending and savings options that you and Budget Ministers could include in the package.

We have assessed a net $4.2 billion of the capital investments submitted by agencies as being high value and deliverable. On top of this, you have options around the scope and funding of the draft Government policy statement on Land Transport.

The draft package positions you to scale savings or spending initiatives up and down, and/or deliver additional fiscal consolidation at Budget 2026

While trade-offs still need to be made across the package, you are well positioned to deliver a Budget 2026 package within the operating allowance.

You have choices around how you choose to allocate the current headroom. Our recommendation is that you:

- avoid adding significant new initiatives back in the package: most initiatives that we have recommended against are based on their value or deliverability;
- defer savings initiatives that support larger savings in the future (such as from [33] and
- keep the option of delivering a package below $2.4 billion, which would support your surplus intention and is consistent with our preliminary forecasts showing a faster closing of the output gap

If you do want to increase the size of the spending package, you could consider commissioning urgent advice from the Treasury and Ministry of Business, Innovation, and Employment (MBIE) on options aligned to your economic growth objectives, to ensure that a larger spending package would be aligned to your priorities.

On capital, the key judgements include the size of the capital allowance, the scope and funding of the Government policy statement on Land Transport, and the PPP pipeline.

There are a number of significant policy decisions to work through

This report focusses on the most substantive policy choices you have, which you will likely need to resolve over several Budget Ministers meetings. These are:

- Spending for envelope agencies (e.g. education and law & order),
- Welfare reform savings,
- Revenue measures, and;
- Capital investments (particularly on the Government Policy Statement on Land Transport).

You have choices around how to present the Budget 2026 package at the first Budget Ministers meeting

For the first Budget Ministers meeting, you could choose to present the full draft package, but this would not be consistent with your approach in previous years. Alternatively, you could present both the draft package and initiatives we have recommended excluding from it to enable a discussion of relative trade-offs between all spending and savings initiatives.

Next steps

We will discuss this report and draft Budget Ministers 1 slides with you at Fiscal Matters on Monday 16 February. We will then update the Budget Ministers slides to reflect feedback.

Treasury Report: Draft Budget 2026 package

Purpose of Report

1. This report provides our advice on a draft Budget 2026 package, and our recommendations on the approach to the Budget package between now and Cabinet on 28 April.
2. You have provided feedback on specific initiatives at recent Fiscal Matters meetings – where our advice differs, the report sets out why and provides options.
3. As in previous years, the Budget package has a lot of underlying detail to work through. This advice is intended to support you in navigating the early stages of the decision-making progress, rather than requiring immediate decisions. Over the course of the next two months, you will receive individual briefings ahead of your bilateral meetings (between 4 - 24 March) that will provide detailed advice, and weekly reports to transact specific Budget package decisions.
4. This report starts with context and strategic judgements, but the latter sections on the contents of the Budget package can be read first if preferred.
   a How we propose that you approach the **significant fiscal judgements** about the size and composition of your operating and capital packages (pages 3 to 6);
   b An overview of **the key elements and judgements within the draft Budget package** (pages 6 to 16), to support you in making progress to decisions in early Budget Ministers meetings and in bilateral meetings;
   c Our initial observations of the economic, workforce and distributional impacts of the draft Budget 2026 (pages 17 - 19).
5. Attached to this report are:
   a **Annex A**, which sets out our assessment of the full list of spending and savings initiatives submitted into Budget 2026;
   b **Annex B - C,** which provide a summary of Budget 2026 Investment Panel recommendations;
   c **Annex D**, which seeks your direction on a discrete Vote Immigration issue; and
   d **Annex E**, the draft slide pack for Budget Ministers 1 on Tuesday 24 February.
6. We will discuss this advice and the draft slides with you at Fiscal Matters on Monday 16 February. Following Fiscal Matters, we will update the slides for your approval, and will provide them to Budget Ministers on 20 February.

Budget and fiscal strategy

Economic and fiscal context

7. You have received a separate Treasury Report [T2026/209 refers] on the preliminary Budget economic and tax forecasts. The preliminary forecasts reflect the continued recovery in the New Zealand economy and a broadening in economic growth, albeit at a slightly more modest rate than the Half Year Update. However, higher inflation in the near term and a stronger terms of trade in the medium-term result in higher nominal GDP.

8. While the preliminary forecasts suggest some upside to the tax forecasts (and therefore potentially the fiscal forecast, depending on how expenditure forecasts develop), there remains considerable uncertainty about the pace of the recovery, and significant changes are possible between preliminary and final forecasts.

9. Beyond these uncertainties, the overall fiscal picture remains consistent over the medium term, with a structural deficit in the near term and significant, growing expenditure pressures over time. As you set out in the Budget Policy Statement 2026, fiscal consolidation remains necessary over the medium-term. At the Half Year update, OBEGALx was forecast to return to a $2.3 billion surplus in 2029/30, one year later than your short-term intention of 2028/29.

The draft operating package focuses on giving you optionality

10. As we noted to you in our previous advice [T2025/3170 refers], we have developed a draft “core” package of recommended spending and savings initiatives, with options available to scale key elements depending on your priorities (including changing the composition of the savings package). The core package balances funding critical cost pressures and high-value spending, while keeping deliverable and credible savings on the table.

11. The draft core operating package has headroom of around $0.9 billion against the operating allowance (a net package of $1.5 billion). You could use the $0.9 billion of headroom in the operating allowance for a combination of:

    a funding additional operating spending initiatives,

    b reducing the level of savings initiatives, or

    c reducing the operating allowance to improve the fiscal position and/or offset the debt impact of a higher capital allowance.

Table A – Summary of draft operating package

	New spending	Savings	Net package
$ billion	3.3	1.8	1.5

We recommend that you do not add significant new spending initiatives

12. Most of our recommendations to exclude initiatives are based on concerns with their value or deliverability. We therefore recommend you minimise significant new initiatives, with small exceptions set out in the next section.

13. If you do want to add further initiatives, we recommend you consider whether there are initiatives aligned to your priorities (e.g. with an economic growth focus) that you want to urgently invite into the process. If you would like further advice on options, we could work alongside MBIE (or other agencies as directed) to provide swift advice.

You could defer some initiatives that have larger savings over the medium-term

14. All savings options that we have included in the draft package are credible and deliverable, including reprioritisation options within envelopes. Medium-term pressures mean that future Budgets will become more difficult to balance, and structural reform in areas of spending is necessary over time. Many of the options on the table for this Budget tackle some of those areas of medium-term growth [33]

15. If you want to reduce the level of savings in the package, the general approach we recommend you defer options that could form part of a larger structural reform package

to a future Budget (in particular, [33] This focuses your savings package on initiatives with a strong individual policy rationale (such as shareholder loans) [33] (in this Budget, welfare reform).

16. You have invited savings options from changes to the Research and Development Tax Incentive. We recommend you keep this option on the table as it is likely to have a strong policy rationale.

There is a case to deliver an operating package below $2.4 billion

17. In November 2025, we advised that a wait-and-see approach was appropriate for changes to future allowances, given the opportunity to make changes at Budget and uncertainty about when and how strongly the economy would recover and how feasible lower allowances will be in the context of expenditure pressures [T2025/2844 refers]. At the time, we were concerned that reductions in spending, especially in 2026/27, could further depress weak demand and exacerbate the large negative output gap.

18. Preliminary economic forecasts and data released since HYEFU suggest there is less spare capacity in the economy than previously thought, reflected in a smaller output gap. The draft package is also frontloaded, with spending initiatives decreasing and savings initiatives increasing across the forecast period. This supports the backloaded approach to the consolidation (even with a lower operating allowance) and reduces the risk of dampening demand as the recovery gets underway.

19. We will continue to develop our understanding of the economic outlook and how this impacts the fiscal position before providing fiscal strategy advice in March. We recommend you retain your existing surplus intention and deliver a package below your existing operating allowance to make greater progress towards achieving this intention.

There is sufficient headroom to take a balanced approach

20. Within the draft package, you have sufficient space to balance these choices if you choose to do so. Indicatively, there is sufficient headroom to [33] include new initiatives of around $300 million, and deliver an operating allowance of around $2 billion.

High value capital investments suggest there is a case to lift the capital allowance

21. You have invited a broad range of initiatives and receive advice on the value and deliverability of those initiatives before making decisions on the size of the Budget 2026 capital package.

22. Our assessment is that (including pre-commitments, savings, and potential receipts from the sale of Chorus securities), there is a net of around $4.2 billion capital of high value and delivery-ready investments.

23. You have choices around the scope and balance of Crown and revenue funding options for the draft Government Policy Statement on Land Transport. [33]

Table B – Summary of capital investment package

	Investments submitted and assessed as high value and deliverable (net of savings)	**Indicative Transport GPS investment package**
$ billion	4.2	[33]

Your Budget 2026 capital allowance should be considered alongside your fiscal objectives

24. Based on our assessment of submissions, there is a case for spending more on capital investment in this Budget than implied by the current allowance of $3.5 billion. Delivering a capital allowance within the $4.3 - $7 billion range set out above would be consistent with your fiscal strategy, but you should consider that:

    a higher debt needs to be weighed against the quality of proposed capital investments, including impacts on economic growth and productivity. As you know we have concerns that the RoNS programme does not represent good value for money; and

    b consistently large capital packages will create more pressures on operating expenditure due to operating costs associated with the additional capital expenditure (both at this Budget and in future Budgets).

25. The size of the Budget 2026 capital package is not isolated from future capital allowances. Based on the current capital pipeline, we expect that there will be high value and deliverable investments above the $3.5 billion allowance in future Budgets.

26. Recurring high allowances over future Budgets could leave you with very little headroom against your short-term intention for debt (to "put net core Crown debt on a downward trajectory towards 40% of GDP"), and could make the debt position vulnerable to small forecast changes. However, in future Budgets you will have additional options to enable increases in capital expenditure within your fiscal strategy, including asset recycling or further constraint on operating expenditure.

You do not need to make decisions on the overall size of these packages now

27. We will provide you with further advice on the size of your current and future allowances throughout the Budget process, as key initiatives within the Budget develop further. Our advice will include the implications of the future capital pipeline over Budgets 2027 – 2029, which you will receive in March.

Draft operating package

28. This section sets out the content and key judgements in the draft Budget package.

The Treasury's draft operating package

29. The stack graph below (Figure A – Budget 2026 Operating Stack), presents an overview of both:

    a the Treasury's draft operating package (indicated in blue); and

    b the additional spending and savings initiatives currently excluded from the draft package (indicated in grey).

[1], [33], [37] and [38]

Key judgements in the operating package

30. This section sets out the distinct judgements in key portfolios. You may wish to test a number of these choices with Budget Ministers and at your bilateral meetings.

Law and Order envelope ($300 million)

31. Budget Ministers invited a Law and Order envelope of $200 million per annum. At the time, we also proposed a medium option of $275 million and a high option of $350 million.

32. As we foreshadowed in our previous advice, the trade-offs involved in a $200 million package are significant [T2025/3170 refers]. These are caused by cost pressures driven by policy settings (causing a growing prison population) and collective bargaining. We have limited information on the specific reprioritisation required to meet these pressures in Police and Corrections, but our best judgement is that there would be impacts on frontline service delivery.

33. The scale of these pressures means that Ministers did not prioritise any significant capital investments, [33], [37]

34. Following our review of submissions, we judge there is a significant risk that a $200 million package, absent policy change, would generate calls on the between Budget contingency or future Budget allowances. We recommend that you increase the Law & Order Envelope to $300 million per annum, including funding for the [33] and [37]

35. If you agree, we recommend you communicate your willingness to consider a higher envelope to Law and Order Ministers and ask for an updated package before your multilateral meeting on 12 March. You could also ask for information on specific choices that Corrections and Police may need to make without additional funding.

Health envelope [37]

36. As discussed at Fiscal Matters on Tuesday 3 February, we are recommending that most of the envelope is used to offset Health New Zealand's operating deficit in 2026/27 [33], [37], [38] except for funding a critical cyber security initiative.

37. [33], [37], [38] However, if you do wish do fund new initiatives, we have identified the five initiatives that we consider the best value for money and deliverability, referred to as "Package B," in the table below (totalling approximately $43 million including recommended scaling options).

Table C – Summary of "Package B" Health initiatives

Key initiatives
• Road Ambulance – funding uplift.
• Forensic mental health services – Expanding access across the continuum.
• [33]
• Maternal mental health and addiction services – Expanding support options.
• Paediatric Palliative Care – Ensuring access to specialist services.

38. Several submissions are Government priorities but are not included in our "Package B", such as funding for Pharmac, [33] and Bowel Screening. Of those, we acknowledge the value and deliverability of a Pharmac uplift. However, we recommend deferring given the several recent large increases to Pharmac's medicine budget and to give Health entities more time to progress their work programme to identify medicines that can deliver cost avoidance or demand reduction opportunities.

Defence and Intelligence envelope [1] and [33]

39. We have recommended funding for a range of investments across year two of the Defence Capability Plan, which were prioritised by Hon Collins in her submission letter. Our recommended level of Defence spending includes Defence Capability Plan commitments within the invited envelope and some cost pressures. We have recommended deferring funding for most Intelligence initiatives; further information will be provided in a classified environment.

40. As we noted in our invitation advice, [1], [33]

[T2025/2274 refers]. However, the funding required is highly sensitive to project timelines and costs, and to small changes in nominal GDP over a long-time horizon. This package provides a significant funding uplift that we consider represents an appropriate balance of achieving policy objectives within the Government's fiscal strategy, particularly given that at Budget 2025 the Government pre-committed $100 million operating per annum and $1.65 billion capital against the Budget 2026 allowances [38]

Education envelope [33]

41. You have indicated that you want to prioritise cost pressure funding within the Education envelope. This is the focus of the draft education package, which we have recommended at below the invited [37] and [38] . We have recommended some limited new spending towards a critical upgrade to the education payroll system and a scaled package of supports for schools and teachers to implement the new curriculum and qualification changes.

42. There is a further $110 million for initiatives outside of the envelope, including Healthy School Lunches and an Early Childhood Education cost adjustment.

Foreign Affairs

43. We have supported scaled funding of $6 million for interventions that will protect New Zealand's frontline diplomatic and trade network. This is modest relative to the total $239 million sought by the Minister of Foreign Affairs.

44. The most significant initiative we have not supported is a large uplift in the International Development Cooperation (IDC) budget [34]

However, there are scaled options (e.g. a lift of around $80 million would maintain the IDC baseline at its current level).

45. We will provide further advice on potential foreign affairs packages ahead of your bilateral meeting with the Minister of Foreign Affairs.

Housing

46. [33]

However, we have recommended against the initiative *Going for Housing Growth – Pillar 3: Council Incentives for Urban Development,* which would provide a small per-consent financial payment to councils. We have not supported this initiative, which the coalition agreement between the National Party and ACT committed to exploring. This is due to significant changes to council incentives already being pursued through resource management reform, previous experience of financial incentives having limited success in shifting council behaviours, and the risk of significant cost pressures in future.

47. If you wish to pursue this, we can provide further advice on alternative options, such as capping the fiscal cost of the measure.

Welfare Reform

48. Ministers submitted welfare reform savings totalling around [33] . On 20 February you will receive joint advice from the Treasury, the Ministry of Social Development, Inland Revenue, and the Ministry of Housing and Urban Development to present welfare reform packages with integrated costings and distributional analysis.

49. [33]

50. Key aspects of the welfare reform package are outlined in the table below, including the rationale for excluding some savings initiatives.

Table D – Main welfare reform initiatives included and excluded in the draft package

Main initiatives <u>included</u> in package	**Savings ($m p.a.)**
[33]	
Increase Income-Related Rent to 30% from April 2027 and to 35% from April 2029	[33]
[33]	
Reduce Temporary Additional Support payments	[33]
[33]	
[33]	

Tertiary Education

51. Tertiary education funding pressures are significant. We have recommended scaled funding towards:

    a Volume pressure (additional demand): We recommend funding 99% of demand over the forecast period to address time-limited funding. This would cover up to 17,000 learners, and without funding providers may cap the number of places they offer.

    b Price pressure (tuition and training subsidy, and fees increase): We recommend scaled funding, and targeting subsidy increases to areas that have the greatest viability concerns. Subsidy increases are lower priority than volume funding.

52. Our recommendation is to fund a scaled version of these pressures and offset the cost by ending Final-Year Fees Free, which you invited as a savings initiative [T2025/3050 refers]. While moving to Final-Year Fees Free was a coalition commitment with New Zealand First, you indicated you wanted to discuss this option with your colleagues.

53. At Fiscal Matters on Monday 9 February, you indicated that you were not inclined to fund cost pressures in the tertiary sector. If you wanted to scale further, we would recommend either:

    a removing the price pressure, and/or

    b time limiting the volume pressure to fund only calendar years 2026 and 2027, [33] that could generate savings and cost management options for Budget 2027.

Baseline reduction

54. Almost all agencies have met their 2 percent baseline reduction target, generating savings of $106 million per annum. We consider most agencies have met your expectations around what savings should be submitted (although weighted towards non-FTE efficiencies). There are four agencies where this may not be the case. We will provide further advice on baseline savings next week.

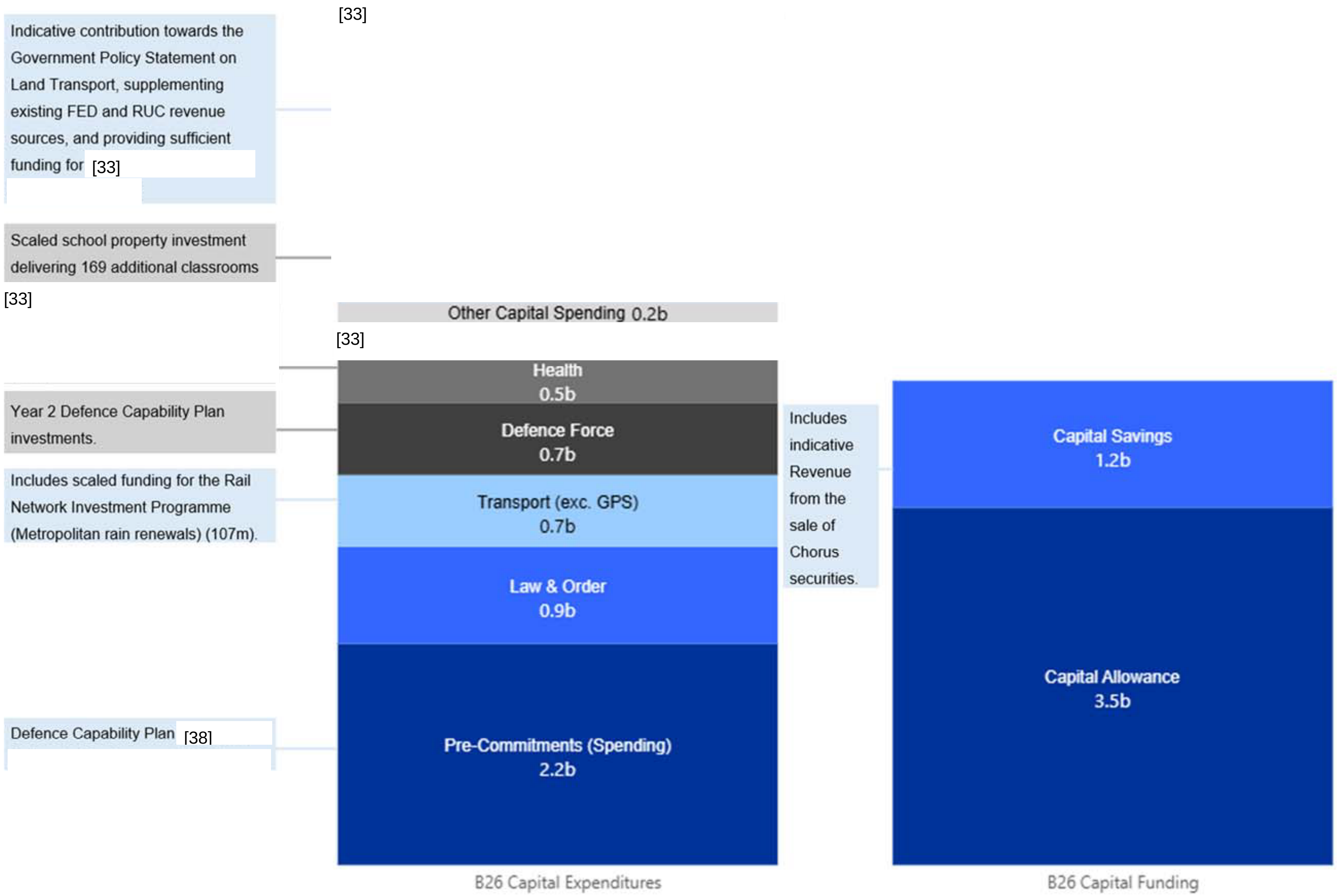
55. The initial 2 percent baseline reduction is being progressed through specific initiatives in Budget 2026. The additional 10 percent reduction would be implemented through future processes (either budgets or performance plans).

56. At Fiscal Matters on Monday 9 February, you indicated you wish to recognise the savings from the full suite of baseline reductions. We have provided separate advice on progressing a joint Cabinet paper on public service transformation and communicating additional baseline reductions, including our advice on fiscal treatment [T2026/230 refers].

Draft capital investment package

57. Figure B below sets out the key initiatives in the Treasury's draft capital investment package. The investment options excluded from the package are not reflected in this graph

Draft Budget 2026 capital investment package



[33]

58. The GPS on Land Transport is being drafted [33] New Zealand Transport Agency (NZTA) has provided the Ministry of Transport with updated, preliminary 10-year forecasts, with final numbers due on 27 February. As such, the Budget submission is draft and will be iterated over the coming months alongside the GPS development.

[33]

These impacts can be managed alongside Budget decisions

61. With a deficit between NZTA's revenue and planned operating expenditure, the key choices in the GPS are between reducing the capital programme, raising revenue beyond the increases agreed in 2024, and committing additional Crown funding.

62. Our recommendation is that any new funding be met by revenue increases to keep the user-pays principle within transport. However, we acknowledge that there may be a mix of funding, and recommend having a clear path to moving back to fully user-pays in the medium term.

63. On that basis, we have included in the draft package a scenario which would:

   a provide the minimum viable funding to enable NZTA to maintain the land transport system fully offset by increases to FED/RUC (or other revenue sources) . [33] revenue measures from July 2027, and

   b a capital grant of [33] . This capital [33] according to the draft Major Transport Projects Pipeline (MTPP) (Cambridge to Piarere [33] could be allocated to other projects at the discretion of the NZTA Board.

64. [33]

Next steps

65. Once NZTA submits its updated 10-year forecasts on 27 February, [33] This is the minimum viable investment required to be prioritised over new investments.

66. At the same time, [33] Ministers have choices then of how much additional funding to provide.

Other key judgements in the capital package

In Law and Order we have recommended prioritising [33], [37]

67. Justice Ministers did not prioritise any capital investments due to pressures on the operating envelope.

68. As noted earlier, we have supported funding for [33], [37]

69. We have not included funding for the Police Property Upgrade programme. The Programme Business Case was endorsed by ECO on 11 February and a Detailed Business Case for Phase 1A is due in March. The full Phase 1A is likely to pose a range of delivery risks due to compressed delivery milestones. However, we consider that it would be possible to bring forward a small number of the most critical Police property projects for funding at Budget 2026. A scaled down initiative would reduce the delivery risks.

There may be implications for the PPP pipeline of deferring the Courthouses investment

[25]

71. However, having a PPP pipeline is a priority for the Government, and the Budget would on this basis not be funding a "new" PPP investment. You could:

    a **include the courthouses PPP in the package**. This would put more pressure on the Law and Order envelope (if you required Ministers to prioritise it within the envelope), and either deprioritising other capital initiatives or further increasing your allowance.

[33]

The Health capital package prioritises existing investment and delivery

73. Of the $655.55 million in total Health capital funding sought, we have recommended supporting [37] in funding. This package prioritises funding for projects already underway, including the Minister of Health's preferred option for Whangārei Hospital, and scaled funding for the Mason Clinic Redevelopment and the National Remediation Programme.

74. We have recommended deferring funding for the Regional Hospital Redevelopment programme until Budget 2027 due to deliverability concerns. These concerns are not about the value or deliverability of the programme itself, which we understand has a clear investment need, but broader Health NZ delivery concerns. Health NZ is

managing around 1,000 physical infrastructure projects and faces significant challenges due to organisational capability and market capacity constraints. While efforts to address these challenges are underway, progress has been slow. The draft package prioritises Health NZ's existing investments and delivery.

Further capital investments, including digital, are captured in the operating package

75. In December 2025, Cabinet agreed to a Digital Target State, with work to be led from the Government Chief Digital Officer (GCDO). To support with implementation of this work, the GCDO have assessed the 18 total digital initiatives for alignment with their agreed standards and whole-of-government outcomes.

76. You received a separate briefing from the GCDO [DG202610919 refers], which sets out their analysis and recommendations across all digital bids. While we support the GCDO's aim to shift investments away from fragmented, agency-specific solutions towards whole of government approaches, there are four initiatives that the Treasury supports, despite a differing view from the GCDO (see table below).

Table E – Initiatives where there are differing views between the Treasury and GCDO

ID	Vote	Investment	Reason for differing Treasury view
17339	Education	NZQA: Strategic Technology Enhancement Project	The Treasury supports this initiative due to time pressures for the agency and the criticality of the investment. We recommend this funding is held in tagged contingency subject to the agency consulting with GCDO on the Approval to Deliver business case.
17126	Education Review Office	Early Childhood Education Regulation IT System Replacement	The Treasury considers funding to be critical and urgent this Budget, as ERO is set to take on these new functions in the first half of 2026.
17140	Environment	National Adaptation Plan - National Flood Map	The Treasury support the initiative due to **time pressures for the agency** [33]
17107	Foreign Affairs	Protecting a Resilient, Safe, and Secure Offshore Diplomatic Network for New Zealand	Given the **criticality** we consider the investment should not be deferred for significant engagement with GCDO to take place, rather the agency could be asked to work with GCDO on implementation

77. In forming our recommendations, we have taken into account that the Budget process was already underway when the GCDO received their mandate (and therefore expectations were not set from the outset alongside invitations) and that the GCDOs implementation timeframes are yet to be clarified and communicated.

We have assessed the deliverability of investments

78. You have indicated that deliverability is a particular focus in considering Budget 2026 investments, and so we have only recommended investments that we consider have a reasonable case.

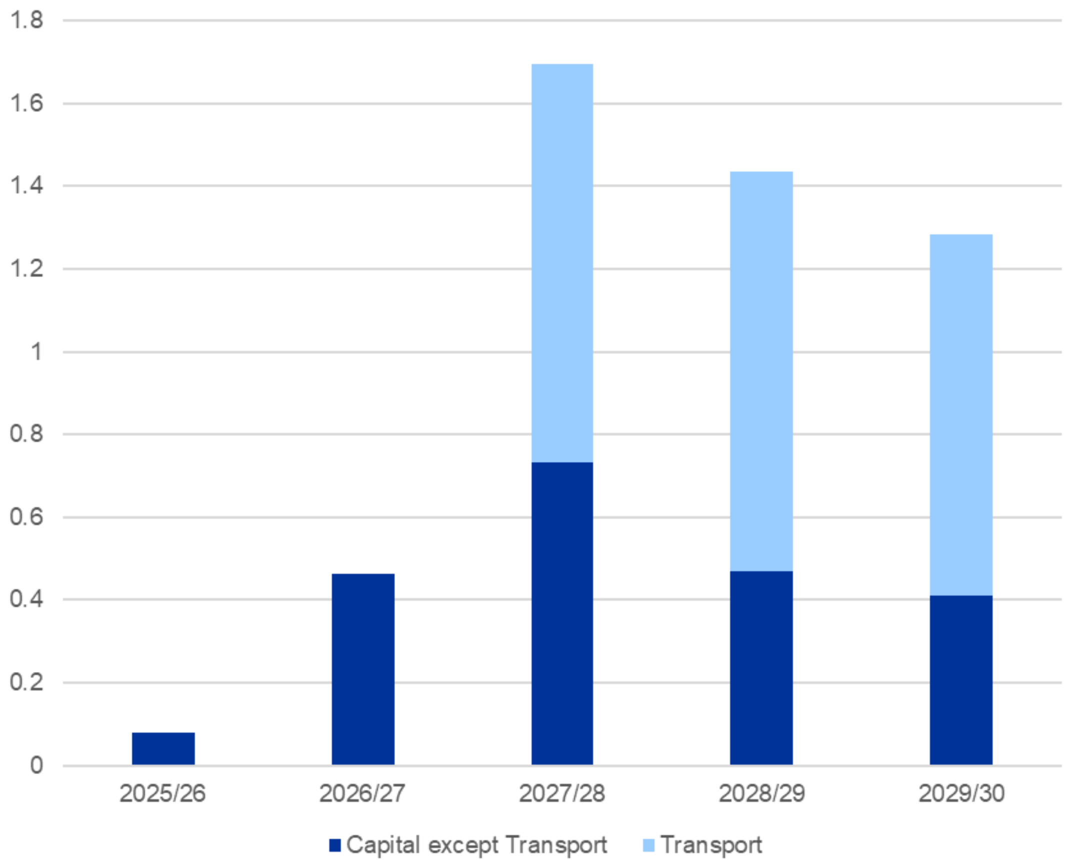
79. A condition of submission was that all capital investments would have a Cabinet approved business case ahead of Budget. This does not guarantee that delivery will commence within the financial year, but the production of a Detailed Business Case provides a strong signal that the agency is well positioned.

80. There are currently seven investments we have supported that did not share a draft business case at submission. Two of those are transport investments with a bespoke investment approval process. We consider the others have a suitable pathway to delivery, because they either have been scaled to a minimum viable level and/or they have an expedited process and pathway to delivery.

81. The other key aspect of delivery is whether projects will start soon after funding is approved. Capital spending is normally spread over multiple years, and the expected profile is usually more back-loaded than the operating package.

82. Agencies have indicated that 24 of the 26 capital investment initiatives we have supported would start in the 2026/27 financial year, although spending would peak in 2027/28.

Figure C – Capital expenditure profile of the draft Budget package



The Investment Panel have also assessed the capital package

83. The Investment Panel focussed their Budget 2026 assessments on investments that are less likely to be investment ready or will have a more significant impact on allowances. The intention for Budget 2026 was to ensure that initiatives without appropriate planning in a Detailed Business Case are subject to additional scrutiny (beyond a Treasury assessment), to reinforce the focus on deliverability.

84. The Panel also reviewed the draft package and were broadly supportive of it. However, they highlighted that the recent trend towards supplementing the land transport user pays system through grants and loans has crowded out other types of social investment. Resolving the misalignment of land transport investment intentions and user charges is a key component of building a deliverable and affordable investment pipeline across multiple Budgets.

85. The Panel's assessments of the initiatives and draft capital package are included in Annex B.

Economic growth and security

86. Given fiscal constraints, the draft package contains few direct economic growth measures. If you are interested in advice on additional spending measures to bolster your economic growth objectives, we could work with MBIE to provide advice.

87. The draft package prioritises initiatives that will strengthen economic resilience to bolster the economy's ability to respond to shocks both through capital investment and flexible systems (e.g. Implementation of Resource Management Act reform), but the overall impact is likely to be modest. We have also recommended against initiatives with potentially negative economic impacts, such as an Australian-style Bank Tax.

88. The economic growth benefits of a significant capital package could be enhanced by a more deliberate approach to capitalising on spillover effects, particularly if the capital allowance is increased to fund high value, investment ready initiatives. We could work with MBIE to provide further advice on ways to ensure those spillover benefits are realised (particularly for a longer-term capital pipeline), which would include ensuring how skills and innovation systems can be supported through these investments.

89. You have indicated that you are interested in developing an energy security package for Budget 2026. Currently, there are two energy initiatives included in the package (or pre-committed to the Budget 2026 package): one market sensitive pre-commitment and a placeholder for the Gas Transition Loan Guarantee Scheme ($25.1 million).

90. Returning to structural balance through continued fiscal constraint will also support our broader economic resilience, and if maintained, create space for increased investment into growth-enhancing investments in the future.

Workforce impacts of the draft Budget 2026 package

91. The Budget process does not reflect changes in FTE resulting from agencies managing cost pressures within their baselines, which are likely to significantly offset any increases in FTE generated by the Budget process.

92. This weekend you are also considering a draft Cabinet Paper that would include a cap on public sector FTE of 60,000. We have provided you with a separate Aide Memoire that sets out considerations for how the design of the next phase of the baseline reduction could support that the delivery of that cap.

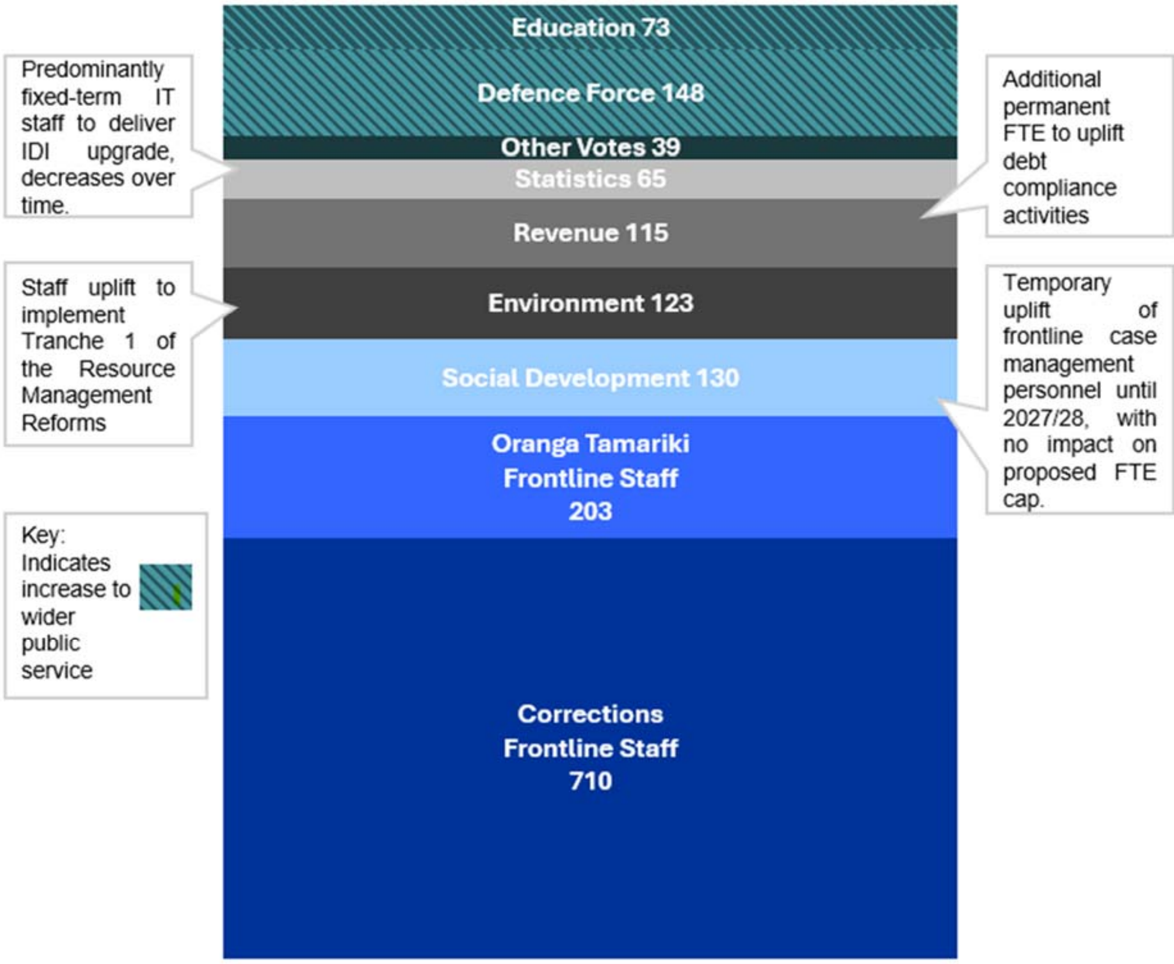
93. These numbers remain highly indicative and subject to significant further review, but based on data provided by agencies and assessed by the Treasury and Public Service Commission, the current Budget 2026 package is expected to create a net 1,388 FTE in the public service, and a further 217 in the wider public sector.

94. Initial analysis also indicates that just 2 per cent of this increase relates to back-office functions (largely to support the implementation of development levies), 15 per cent relates to invest-to-save initiatives in votes Social Development and Revenue, 25 per cent relates to staff uplifts to deliver capital investments, and 57 per cent are frontline staff in Corrections and Oranga Tamariki.

95. You have already provided feedback that may reduce some of the FTE increases. You have requested reprioritisation options from the Ministry for the Environment that may reduce the FTE required to implement Resource Management reforms, and you have

asked Inland Revenue to work with the Treasury on the FTE required for increased debt compliance activities. We can provide an update on this in a future iteration of the package advice.

Figure D: Key drivers of workforce increase (four-year average)



96. We expect to provide updated workforce implications based on the final Budget package agreed by Cabinet. We will confirm FTE implications and occupational areas with agencies ahead of Budget Day communications; and provide further updates through the package development process.

Workforce implications of Baseline Reductions

97. Agency baseline reduction submissions indicate an average reduction across the forecast period of approximately 92 FTE. However, we consider this a significant underestimate as we have not received FTE information from some agencies where FTE reductions are highly likely (including from Inland Revenue and MBIE, which together account for more than a quarter of the baseline reduction target set for Budget 2026).

Initial distributional observations

98. When you take your Budget package to Cabinet, you are required to identify any Treaty of Waitangi implications, human rights impacts, and climate implications. While agencies and their Ministers are primarily responsible for identifying and managing

these risks, our role is to ensure you have visibility including of the cross-cutting impact of the package as a whole and identify options to manage those risks.

Treaty of Waitangi impacts and broader impacts on Māori

99. [33] and [36]

100.

Human Rights impacts

101. The Ministry of Justice (MoJ) has analysed the impacts of initiatives that agencies have identified as having human rights impacts. At this stage, the most substantive risks identified by MoJ relate to the proposed Welfare Reform initiatives. We will ensure agencies engage with MoJ on the management or mitigation of any impacts. This was a similar process as was undertaken for Budget 2025 welfare initiatives.

Climate Impacts

102. There are 24 initiatives with adaption impacts that would deliver a net increase in climate resilience, and 15 initiatives with emissions impacts. We will provide you with updated climate impacts information and confirm whether a Climate Impact of Policy Assessment is required for the final Budget package.

Monitoring and evaluation

103. We have been working in partnership with the Social Investment Agency (SIA) to identify possible Budget 2026 initiatives that might benefit from SIA review or scrutiny of the proposed monitoring and evaluation approach.

104. During the Budget process, SIA will provide assessments of agencies' monitoring and evaluation plans for selected initiatives to support bilateral discussions. This will be focussed on a small number of initiatives.

105. SIA has identified initiatives from the following Votes that might benefit from SIA review:

Vote	Initiative ID	Initiative title
Oranga Tamariki	17127	Reports of Concern volume pressure – boosting Oranga Tamariki capability through capacity, efficiency and productivity
	17183	Responding to increasing numbers of children in care with complex needs
Social Development	17202	Dame Karen Poutasi Response – Strengthening the Safety Nets to Identify and Respond to Children at Risk of Harm

	17206	Invest in employment support for sole parents to reduce welfare costs and material hardship for children
	17208	Emergency Housing – Extending scaled-down support services
Education	17342	Expanding VET delivery for secondary school students

106. There may also be some Health initiatives that could benefit SIA involvement. However, SIA will await advice on which Health bids are likely to progress before undertaking any further assessment.

Budget Ministers 1

107. We have drafted a slide pack for Budget Ministers 1 (attached at Annex E), which focusses on the significant strategic choices to be made in this Budget.

108. You have a choice for how you present the operating package at Budget Ministers 1. You could either:

a present a graph or table presenting the Treasury's draft operating package or

b include the initiatives currently excluded from the package to give Budget Ministers a picture of the total level of possible spending and savings items.

Recommended actions

We recommend that you:

a **indicate** which operating package you would like to present to Budget Ministers at Budget Ministers

a. the Treasury's draft package; or

Yes / No

b. the Treasury's draft package, combined with the additional spending and savings initiatives that we have currently excluded from the package.

Yes / No

b **provide** any further feedback on changes you would like the Treasury to incorporate in the Budget package for Budget Ministers 1 (24 February);

c **agree** to include an increased Law and Order envelope (from $200 million to $300 million) in the draft Budget package, to address critical cost pressures in the sector and [33], [37]

AND, if you agree to rec e:

d **agree** to write to relevant Law and Order Ministers, seeking an updated prioritised package in line with an increased envelope from $200 million to $300 million;

e **indicate** if you would like further joint advice from the Treasury and the Ministry of Business, Innovation and Employment on:

a. additional spending options that could be included in the Budget 2026 package to enhance economic growth

Yes / No

b. maximising the spillover effects of capital investments currently included in the draft package.

Yes / No

Stephen Bond
Manager, Budget

Nicola Willis
Minister of Finance

_____/_____/___

Annex B: Investment Panel advice on draft capital budget package

The Investment Panel (the Panel) support the draft package presented by the Treasury, but identified a few key points of feedback across the package and in votes with large areas of investment.

Cross-cutting feedback

Transport is crowding out all other investment: On the whole, the land transport system is intended to be managed as a user-pays system. The recent trend towards supplementing the user pays system through grants and loans has been necessary because investment intentions and user charges are not aligned. Choosing to increase the capital allowance but prioritising this towards road investment above other types of investment reinforces this emerging status quo and the continued crowding out of other types of investment. Resolving this is a key component of building a deliverable and affordable investment pipeline across multiple budgets. This would also ensure that investment plans are better matched to both users' willingness to pay and government priorities.

Integrating the operating and capital cost of investment: It is important that Ministers understand the policy and service delivery trade-offs being made when managing investments with operating expenditure (OPEX) and capital expenditure (CAPEX) impacts within constrained allowances. This is particularly acute in the digital space where investments that are largely OPEX compete with other pressures, creating risks for agencies and impacting progress towards digitising government. It is also relevant in improving the planning and management of infrastructure investment where visibility of whole-of-life cost is essential.

Capability risks: Data and digital investments disproportionately rely on skilled migration. Agencies may see deliverability risks crystalise on a lag because of labour skills shortages. Large digital investment must be better coordinated across government to mitigate these risks. The developing GCDO work on the Digital Target State is intended to address this.

Assessment of highlighted capital package judgements

Transport: The Panel support managing transport investment within a self-funded system, focusing on maintenance above new investment.

- The large-scale Crown funding of transport initiatives conflicts with the management of the road network as a user-pays system. The Panel continue to support seeking to manage road investment within a user pays system because most benefits flow to current users. Within that, the focus should be on extending the life of existing investments as much as possible over new investments. Maintenance and renewal needs, including considering resilience to natural hazards, make up a rising share of total investment demand.

- The Panel observed the potential inequality in the expectations applied to agencies seeking Crown funding for investments, where significant road projects do not demonstrate the same level of planning for comparable or higher levels of funding. The Panel noted the responsibilities delegated to the New Zealand Transport Agency (NZTA) board and the difficulty of assessing the project prioritisation undertaken by the agency when limited information is made available, while faced with increasing calls on new Crown funding.

- The Panel identified the potential merit in the Treasury reviewing the Transport portfolio to apply a top-down assessment of prioritisation when considering affordability across years. This could consider options to prioritise investment based on expected benefits or economic growth measures.

Law and Order: no changes proposed to the package.

- Demand in the justice sector has surpassed projections. The accuracy of projections is an ongoing challenge, possibly explained by the impact of changing policy settings that are strongly linked to volume of cases through the courts and numbers of the prison muster. [34]
  particularly for Corrections where prison bed numbers are forcing difficult prioritisation decisions.

- The Panel discussed the opportunities for digital investment to support a future facing justice system, for example, digital courts that could alleviate demands on the estate. However, this assumes Ministers are willing to make decisions to close underutilised areas of the estate and investment in digital capability remains at an early stage. Until these investments are sufficiently developed the maintenance, renewal, and replacement of existing physical assets which provide minimum levels of service will continue to be a higher priority for funding.

- Looking forward, the Panel identified the opportunity to replicate joined up investment in the justice sector to more efficiently delivery investment, e.g. the delivery of the justice precinct in Christchurch.

Health: no changes proposed to the package.

- The Panel recognised the journey Health NZ (HNZ) is on to improve infrastructure planning and delivery capability and supported a funding approached that reflects HNZ's delivery capacity.

- On the digital side, HNZ appears to be taking a risk-based approach to investment which focuses on the basic building blocks, which is sensible but will take time. In the intervening time there is a risk of regretful expenditure on investments that create bespoke solutions that duplicate or fail to leverage system assets.

Education: the Panel queried the funding of investment in the school property 'grow' portfolio over the 'maintain' portfolio.

- As a principle, the Panel recommend prioritising funding towards the maintenance of existing assets necessary for service delivery and therefore questioned the decision to prioritise the school property 'grow' portfolio over the 'maintain' portfolio. The Panel were not clear on the extent to which [33] could realistically alleviate maintenance pressure.
- The Panel were supportive of the digital investments progressing and noted the potential benefits of the Education Payroll initiative as a foundational payroll system across government.

Climate, Energy and Resources: no changes proposed to the package.

- The Panel discussed the importance of the Resource Management Act and Flood Mapping investments developing together and the significant risks of the short delivery timelines. The successful delivery of investments will be particularly challenging in an agency with limited experience in data and digital investments of this scale and complexity, further affected by the establishment of the Ministry of Cities, Environment, Regions and Transport.

Vote	Budget ID	Name	Final Score	Support Description	Evaluator Comment
Police	17101	Police Property Upgrade Programme Phase 1a	3	Support With Conditions	The submission presents a credible 'must-do' case to address critical compliance, health and safety, duty-of-care and operational continuity risks at the most critical Police sites, with clear consequences if deferred. It also presents a broadly credible delivery approach through phased delivery, standardised designs/off-site manufacturing and partnering with Crown Infrastructure Deliver (CID). However, key assurance gaps remain: benefits are largely unquantified and no cost benefit analysis is provided, delivery risks are material with compressed timelines and only high-level mitigations presented, and whole-of-life cost and affordability evidence could be stronger. The Panel recommends that funding should be conditional on a Detailed Business Case that (1) confirms scope/prioritisation for Phase 1a (and the land acquisition rationale), (2) provides a tighter cost/risk reconciliation to the financial model with sensitivities, and (3) sets clear governance, benefits realisation measures, and delivery readiness evidence (including market capacity and change management readiness).
Environment	17112	RM Reform Implementation Tranche 1 Investments	3	Support With Conditions	Based on the information provided in the Programme Business Case there is a reasonably compelling case for change. However, the Panel identified deficiencies in the commercial and financial cases set out. The increased cost and risk of the preferred option do not present a compelling case. [33] There are risks around agency and market capacity and capability to deliver within the ambitious timeframes set out, particularly given the scale of change across the system. Thorough market testing against specific needs is essential to ensure delivery confidence, given the initiative depends on rapidly building external technical and digital capability. Nevertheless, there is a significant opportunity to deliver digital public architecture in the geospatial and data sharing categories, connecting services provided and used by several agencies. The trade-offs between risk, speed of delivery, and broader Resource Management Act (RMA) and digital goals will need to be carefully managed to achieve successful delivery. The Panel recommends the following conditions are attached to a funding decision. The service and digital architecture is developed in collaboration with the Government Chief Digital Officer (GCDO) to align with the digital government target state. [33] Capacity and capability needs for the investment should be reviewed and updated by the agency, noting the change programme underway to establish the Ministry of Cities, Environment, Regions and Transport.
Health	17120	Forensic mental health services – Expanding access across the continuum	2	Do Not Support	The investment is not supported due to insufficient information. The submission identifies a real and timely problem in forensic mental health service access. However, the proposal has not been developed to a stage sufficient to justify funding. No business case was attached, no evidence of cost benefit analysis or quantitative analysis, and stakeholder engagement beyond Corrections is not evidenced, contributing to a failure to articulate the investment solution, outcomes and realisable benefits. The proposal does not appear investment ready across procurement, financial credibility or governance. A detailed business case is required to evidence investment options, outcomes, benefits, costs and a clear implementation pathway. The agency should also engage Crown Infrastructure Delivery for independent support given the complex interdependencies acknowledged.
Education	17121	School Property – Growing and Expanding the English Medium, Māori Medium and Kaupapa Māori Education Portfolio	3	Support With Conditions	The investment proposal is focused on addressing immediate growth pressures and projected growth, which is consistent with the draft National Infrastructure Plan's forecast demand for school infrastructure in highly concentrated growing urban areas and areas with high Māori populations. The Panel recommends that the agency: (1) develops an integrated investment strategy evidencing that the agency has considered non-build options and potential risks and mitigation measures related to climate change and natural hazards, and integrated non-build and capital-intensive investment at each site; and (2) updates its Assurance Framework to incorporate satisfactory independent expertise across investment prioritisation, governance and delivery monitoring.

Education	17122	School Property – Maintaining and Upgrading the Portfolio	3	Support With Conditions	There is strong rationale for this investment with links to Government priorities, with the 'maintain' portfolio considering and providing balance with the 'grow' portfolio. Working with the market will be critical to success, with procurement strategies potentially needing to vary from region to region and over time. Ongoing challenges with depreciation funding have been observed, with this no longer being sufficient to maintain assets. Noting the establishment of NZ School Property Agency (NZSPA), an update to governance, monitoring and assurance processes should be required within 6 months of establishment. The Agency should evidence how the delivery of maintenance by schools will be better monitored and managed. The Panel recommends that the agency: (1) produces a Detailed Business Case and Approval to Deliver; (2) updates its Assurance Framework to incorporate satisfactory independent expertise across governance, management and school monitoring, which should also be repeated within the first six months of establishing the NZSPA; and (3) develops an implementation plan that enables success of the investment, considers the availability of suppliers, addresses climate implications, and ensures involvement of stakeholders and communities.
Transport	17138	Rail Network Investment Programme (RNIP) - National Rail Freight Network	3	Support With Conditions	This is a core, ongoing national network maintenance/renewals programme with a credible deterioration and service-loss risk if funding drops away. It is strongly aligned to the Government Policy Statement on Land Transport (GPS) focus on efficient movement of freight and resilient metro networks. However, the evidence presented is not yet strong enough for an unqualified Budget recommendation for the preferred 75% scaled funding package, particularly because the 75% option is not re-tested to identify benefit cost ratios (BCR), emissions, outcome and service-level impacts. The Treasury-required discount-rate sensitivity is not shown, and risk/mitigation and market delivery analysis are also high level. The Panel recommends that funding is conditional on: (1) providing 2% and 8% discount-rate sensitivities; (2) quantifying impacts under the scaled 75% option (outputs, corridor/service impacts, BCR and emissions); and (3) strengthening the delivery and risk plan (market capacity, escalation/contingency rationale, scope-control governance).
Environment	17140	National Adaptation Plan - National Flood Map	2	Do Not Support	[33], [38] There is a clear interdependency with the Resource Management Act (RMA) initiative (17112) and a clear high reliance on geospatial data. Given the key dependencies outlined in this initiative case the Investment Panel recommends that the agency incorporate the investment into the RMA scope and architecture and ensure it is included within the scope of a geospatial cluster as noted in RMA initiative assessment.
Transport	17157	[PLACEHOLDER] Government Policy Statement on Land Transport 2027	1	Do Not Support	The Investment Panel assessment specifically addresses Proposal 3, the high funding scenario submitted for Budget consideration under the Transport GPS bid. The Panel strongly do not support this proposal. Proposal 3 is not a decision-ready investment plan. It functions as an unallocated top-up to the National Land Transport Fund to cover an expanding and costly project pipeline, without clear prioritization or value-for-money thresholds. It lacks the necessary assurance and transparency required for managing taxpayer funds at this scale. The proposal fails to provide a solid evidence base. It does not clearly define the problem, explain the funding gap, or distinguish between controllable and unavoidable costs. There is no clear link between the requested funding and measurable outcomes or benefits. Additionally, the proposal lacks a robust options analysis, including considerations of reprioritisation, cost-saving alternatives, or deferrals. Crucially, it does not include a cost benefit analysis or equivalent economic evaluation to demonstrate value for money, nor does it quantify risks or test the robustness of its assumptions. The proposal also lacks a credible delivery plan. It does not address key constraints like market capacity, consenting, property, sequencing, or interface risks. No commercial or procurement strategy has been provided to match the scale of funding requested, and governance and scope controls are insufficient to ensure transparent and consistent allocation of funds. The independent review (AECOM report) highlights weaknesses in system data and decision-making processes, raising concerns that additional funding could be absorbed by agency cost pressures rather than delivering tangible outcomes. Based on the evidence, funding this proposal would pose significant fiscal and accountability risks without sufficient assurance of benefits. The Infrastructure Commission's Forward Guidance and the National Infrastructure Plan highlight that network infrastructure should be funded through user charges wherever possible. Proposal 1, the baseline scenario, aligns with this principle by relying on existing and planned increases in road user charges. It represents the minimum credible level of investment for system stewardship, and the Panel supports Proposal 1 as outlined in the submission.

					If Proposal 1 is not acceptable to Ministers, the Panel would recommend progressing an investment option that, to the extent possible, preserved the principles of the National Infrastructure Plan advice, such as Proposal 2. If Ministers progress Proposal 2, the Panel recommends the following conditions are fulfilled before funding is released. NZTA provides Ministers with an economic case that demonstrates clear value-for-money thresholds and a thorough options analysis, including lower-cost and non-capex alternatives. NZTA must demonstrate delivery readiness through credible sequencing, market capacity assessment, and a procurement strategy that avoids conflicts with other major programmes. Planning includes strong governance and scope controls, with clear decision rights, funding gates, and mechanisms to manage scope changes and cost escalation. Adequate climate and resilience assurance, including consideration of adaptation, emissions impacts, and induced demand should be demonstrated. The agency should also demonstrate evidence of affordability discipline and consistency with National Infrastructure Plan principles, including a strong user-pays bias and avoidance of unfenced Crown top-ups.
Statistics	17211	Stats NZ – Modernise the Integrated Data Infrastructure to support social investment and government decision-making	3	Support With Conditions	The Integrated Data Infrastructure (IDI) is a national asset that most other jurisdictions do not have. The Investment Panel strongly supports the IDI case and the statistical data and expected outcomes for the Social Investment Agency. Modernising the IDI provides an opportunity to enhance the security of an important decision-making tool. However, further refinement of the available options should consider how to better align with Government priorities, in principle and through technical direction, as detailed in the future Digital Target State. The Panel recommends that the agency resolves any presenting data architecture issues with how data exchange is built and operated prior to development of the Detailed Business Case, to ensure alignment to the new Digital Government Target state.
Defence Force	17223	Defence Capability Plan - Frigate Sustainment Programme Phase 2A	3	Support With Conditions	The strategic rationale for this initiative is strong: [1] However, the bid does not yet provide sufficient evidence to support funding: options analysis is thin and stakeholder support and delivery readiness are not evidenced. Key risks [1] are acknowledged but not quantified or costed to a level needed for budget advice. The Panel recommends that funding is conditional on an approved Detailed Business Case which provides evidence on options, measurable capability outcomes/thresholds, risk-adjusted cost ranges, market capacity analysis, and a workforce/implementation plan, supported by independent assurance.
Defence Force	17224	Defence Capability Plan – Maritime Platform Restoration Activities – ANZAC Frigates & Canterbury	3	Support With Conditions	This initiative is a necessary, [1] sustainment/restoration package to maintain seaworthiness, compliance and operational availability of HMNZS Te Kaha, Te Mana and Canterbury, and [1] [1] Delivery is broadly credible because the work is based on established Fleet Maintenance Plan / Canterbury sustainment planning and is intended to be executed through existing in-service support arrangements (including Maritime Fleet Sustainment Services), with costings drawn from work package experience and a stated allowance for uncertainty in material state. However, funding should be contingent on strengthening the assurance package. Ongoing reporting should clearly demonstrate delivery progress, emerging material state discoveries, and cost/schedule variances against agreed baselines. The Panel recommends that funding is conditional on the agency providing a clear consolidated risk register (including [1] , and explain contingency methodology and how scope/cost control will be managed within the single-provider context. This could be managed through a follow up report to Joint Ministers.
Housing and Urban Development	17268	Housing Flexible Fund – further investment for social housing and other housing solutions	3	Support With Conditions	The outcomes sought, more houses for those facing housing stress, is aligned with the underlying problem. The supporting information, including cost benefit analysis, provides some evidence for the intervention achieving the intended outcomes. Engagement with the sector through developing the Housing Investment Plan appears to support the general approach to investment. The Budget bid does not clearly show that the proposed solution is the best way to address the issue of high housing stress, and the estimated return on investment is relatively poor. Including analysis of a wider set of options (such as direct financial support) would provide better information on why this solution should be funded. Additionally, the bid does not provide a strong argument for why funding is urgently needed or assess the ability of community housing providers and Kāinga Ora to meet delivery targets and timeframes. Delivery capacity will also be affected by the state of the wider residential construction market, which could materially change over the investment timeframe.
Transport	17290	[33]			

					[33]
Health	17299	Digital Services – Cyber Security – Core Security Services	3	Support With Conditions	The submission presents a timely case to address critical cyber security risks across the primary health sector, noting recent incidents and third-party risk exposure. However, key assurance gaps remain: the scope does not solve for the wider health sector; the boundary between core cyber and operational assurance/risk management is unclear relative to the Health Modernisation programme and Digital Investment Plan; the investment continues time-limited project funding rather than sustainable business as usual operations; and there is high reliance on external resources without adequate market testing. The Investment Panel recommends that funding should be conditional on (1) development of a wider health sector target security architecture, endorsed by GCISO and confirmed by GCDO for alignment to the digital government target state, (2) funding limited to 12 months with a further 12-24 months dependent upon target architecture approval, with a stage gate to review strategic cyber direction, (3) the agency testing the market for Public Private Partnership opportunities, and (4) clarification of scope against the Health Digital Investment Plan and Modernisation programme.
Education	17323	Education payroll upgrade	3	Support With Conditions	This initiative proposes to continue using the front-end portal EdPay, but this should be reviewed in the context of the Ministry of Education's strategic goals and the GCDO Digital Target State. Whilst the Indicative Business Case clearly articulates the problem, urgency, risks, and rationale for investment, and lessons learned from the past (including 'Novapay') have been incorporated with key risks identified with mitigations, there are areas that will need to be addressed within the Detailed Business Case (DBC). The Panel recommends that funding is contingent on the successful completion of and decisions taken on the DBC and Approval to Deliver (AtD), alongside the necessary Investor Quality Assurance, Technical Quality Assurance and Gateway assurance, including a Gate 2 review (preceding the DBC) and Gate 3 review (preceding the AtD). The Panel also recommends that the agency firstly ensures payroll reuse across government continues to be viable by maintaining a Common Process Model and architecture alignment. Secondly, the agency addresses the following in the DBC: (a) explaining how frontline collective agreements will be standardised, including any risks and mitigations; (b) alignment to the Government Digital Target State with endorsement by GCDO; (c) clearly distinguishing between the benefits and outcomes delivered under the preferred option (Upgrade the Technology to Software as a Service, and retain EdPay) and those linked to implementation of the broader Road to Compliance programme ambitions; and (d) resolving some inconsistencies around employee numbers and time needed to complete phase two.
Education	17339	NZQA: Strategic Technology Enhancement Project	2	Do Not Support	The Panel acknowledges that Cabinet has approved the Detailed Business Case for this investment which clearly demonstrates the nature of the problem and highlights the urgency of addressing it, but have identified that the investment presents an opportunity for alignment to the Government Digital Target State. The Panel recommends that the agency: (1) rescopes the investment to solve for benefits across the education sector and wider government; (2) requires the development of a service and digital architecture for the Education sector that aligns to the Government Digital Target State with endorsement by GCDO; (3) works with NZ Government Procurement on procurement and commercial elements; and (4) identifies critical regretful spend required to maintain current service levels to enable education reform.
Health	17345	Regional Hospital Redevelopment Programme Tranche 2 - Minimum Stage 1	3	Support With Conditions	The investment is for enablement and design works and will not in itself deliver the outcomes and benefits. These are dependent on the full redevelopment programme which has much higher capital costs. Further funding will also be required in Budget 2027 to complete Stage 1. The Programme Business Case set out 'off ramps' and staged decision making which is appropriate for this scale of investment. Enabling works should not lock in large capital-intensive solutions, and alternatives to major capital investment should be more fully explored for subsequent stages. The Panel supports the enabling works as proposed, however more work is needed on the Programme Business Case to monetise the size of problem and benefits of investment (noting no cost benefit analysis was performed) to ensure overall value for money for the preferred option at each site, recognising that problems differ across the three hospitals. Scope change processes should be clarified given the risks associated with remediation projects.

Annex D: Vote Labour Market (Immigration) – Permanent Community Organisation Refugee Sponsorship visa category

<table>
<tr><td>Vote</td><td>Labour Market (Immigration)</td></tr>
<tr><td>Initiative ID</td><td>17154</td></tr>
<tr><td>Initiative Title</td><td>Permanent Community Organisation Refugee Sponsorship visa category</td></tr>
<tr><td>Contact details</td><td>
<table>
<tr><td>Anastasia Wilkes</td><td>Analyst</td><td rowspan="2">[39]</td></tr>
<tr><td>John Marney</td><td>Manager</td></tr>
</table>
</td></tr>
<tr><td>Issue / advice sought</td><td>
Context
The Community Organisation Refugee Sponsorship (CORS) visa category enables New Zealand-based community organisations to sponsor refugees for resettlement. The Ministry of Business, Innovation and Employment (MBIE) has submitted a budget bid for permanent implementation of the category following conclusion of the pilot programme which ran from 2018 to 2025 and resettled 225 refugees. MBIE submitted 200 places per year, but we have recommended a scaled option of 50 places to balance cost and delivery considerations.

Issue
The costings for the CORS budget initiative includes the costs of social welfare benefits and funding for education providers that provide services to refugees who come to New Zealand as part of this programme (e.g. language training). We directed MBIE to include these costs because there is sufficient certainty on the volume and needs of the CORS intake to reasonably estimate their cost. These wider costs are not normally factored into immigration policy changes as they can be hard to estimate; costings for the pilot CORS programme approved in 2020 did not factor in these costs. These wider costs represent $5.24 million of the $10.73 million total cost of the initiative over the forecast period.

MBIE has concerns with this approach, as it deviates from how most visa category changes are treated, including the increase to the Refugee Quota programme. There have been other examples of visa category changes that have followed this process, including the Parent Visa Category in 2022.
</td></tr>
<tr><td>Treasury advice</td><td>The Treasury's recommendation is to manage education and welfare costs inside the allowance so that Ministers have a greater understanding of the full costs of the initiative. If the costs were managed outside the allowance, they could be met through forecast adjustments which would directly impact OBEGALx. We can provide further advice should you wish to choose this option.</td></tr>
<tr><td>Treasury recommendation</td><td>
Indicate whether you want further advice on managing welfare and education costs for the CORS Budget initiative outside the allowance.
Yes/No

<table>
<tr><th rowspan="2">Option</th><th rowspan="2">ID</th><th colspan="5"></th><th rowspan="2">Total ($m)</th><th colspan="3">VFM ratings</th></tr>
<tr><th>25/26</th><th>26/27</th><th>27/28</th><th>28/29</th><th>29/30</th><th>V</th><th>A</th><th>D</th></tr>
<tr><td>Current status in package (wider costs included/Treasury recommended)</td><td>17154</td><td>0.00</td><td>1.63</td><td>2.49</td><td>3.04</td><td>3.56</td><td>10.72</td><td>3</td><td>2</td><td>4</td></tr>
<tr><td>Option A (wider costs not included /MBIE preferred)</td><td>n/a</td><td>0.00</td><td>1.37</td><td>1.37</td><td>1.37</td><td>1.37</td><td>5.49</td><td>3</td><td>2</td><td>4</td></tr>
</table>
</td></tr>
<tr><td>Referral to other Ministers</td><td>Refer this to Budget Ministers: Yes/No.</td></tr>
</table>